

**House Energy and Natural Resources Committee
The Honorable Al Landis, Chairman**

**Proponent Testimony on:
House Bill 8
Presented By:
Chris Zeigler, Executive Director
American Petroleum Institute Ohio**

Chairman Landis, Ranking Member O'Brien and members of the House Energy and Natural Resources Committee, thank you for the opportunity to offer proponent testimony in support of House Bill 8, sponsored by Vice Chairwoman Hagan and Representative Ginter. My name is Chris Zeigler and I serve as the Executive Director of the American Petroleum Institute's division in Ohio (API Ohio).

API is the only national trade association representing all facets of the oil and natural gas industry, which supports 9.8 million U.S. jobs and 8 percent of the U.S. economy. API's more than 625 members include large integrated companies, as well as exploration and production, refining, marketing, pipeline, and marine businesses, and service and supply firms. They provide most of the nation's energy and are backed by a growing grassroots movement of more than 25 million Americans. In Ohio, API members have added billions of dollars in economic value throughout our state and the larger Appalachian region, and represent leaders in the development of the Utica/Point Pleasant shale play.

As written, HB 8 amends provisions governing Ohio's unitization process as set forth in Ohio Revised Code (O.R.C.) Section 1509.28. At a high level, unitization is a process that allows for the combination of contiguous tracts of land for the purpose of developing all or a portion of a producing oil and gas reservoir (e.g., the Utica/Point Pleasant formation) as a single unit. Ohio's unitization statute allows oil and gas companies and landowners to share in the benefits of the economical and efficient development of the State of Ohio's collective oil and gas resources. With the advent of advanced drilling technologies, and need for hundreds of acres for the development and operation of Ohio's shale resources, however, the current use of the unitization statute has revealed a number of issues that HB 8 intends to correct.

First, House Bill 8 establishes a reasonable timeframe for the completion of the statutory process, which includes the submission of an application to the Ohio Department of Natural Resources, Division of Oil and Gas Resources Management (the Division), the scheduling of an administrative hearing, and issuance of an order. Unfortunately, unitization applications, which cost \$10,000 apiece, take approximately six to ten weeks for the Division to review and process before a hearing is even scheduled. After a hearing, there is no statutorily-defined limit on the amount of time the Division can take before issuing a unitization order. In some instances, operators and landowners have waited for six to eight months after the hearing to receive an order from the Division—the type of delay that can

result in significant losses for both the applicant and landowners, especially in recent months with the drop in commodity prices.

To correct this issue, HB 8 requires the Division to hold a hearing within 45 days after the submission of a unitization application, and then issue an order within 30 days after the hearing. This correction will eliminate the administrative delays and timing inefficiencies, while adding the benefit of certainty to a process that ultimately benefits the participating landowners.

The second issue relating to unitization involves land owned by state agencies that falls within the proposed unit area. Since state agencies currently are not even negotiating non-surface use oil and gas leases, and the Division is reluctant to apply unitization orders to state-owned lands, the state is effectively barred from having the oil and gas resources under its lands developed, thereby losing out on significant financial resources. Perhaps more importantly, the reluctance of the Division to unitize state lands prevents private landowners from realizing the full potential associated with the development of their natural resources. For example, if a unitization application involves three tracts of state-owned land under a highway that bisects a drilling unit, the inability to unitize the state lands precludes the development of the entire unit (even though the state would experience no use of the surface of its property), and prevents the state and all other landowners in the unit from realizing the significant financial benefits of developing the entire unit.

House Bill 8, however, corrects this situation by requiring mineral rights owned or controlled by ODOT to be included in the proposed unit area as long as the other statutory unitization requirements are satisfied. If included in the proposed unitized area, property owned by state agencies (like ODOT) will receive significant financial benefits in the form of royalty payments (although they will miss out on even more money by remaining unable to voluntarily lease), while private landowners will realize the full potential of developing their natural resources. API Ohio supports expanding this provision to include all mineral rights owned by various state agencies.

In addition to updating the unitization statute, House Bill 8 amends Ohio's Real Property (Ad Valorem) Tax provision as currently found in O.R.C. §5713.051 to address the uncertainty resulting from county auditors using several different methods for determining the real property value of producing oil and gas reserves. House Bill 8 simply clarifies that the current statutory method for determining the true value of oil and gas reserves for property tax purposes is the only method for valuing such reserves. Making this change adds certainty and uniformity to the valuation process throughout the entire state.

Chairman Landis, Ranking Member O'Brien and members of the House Energy and Natural Resources Committee, thank you again for the opportunity to offer proponent testimony in support of House Bill 8. API Ohio and its member companies respectfully request that the committee favorably pass HB 8 in order to ensure the continued efficient development of our oil and gas resources and all the benefits that it offers to the people of the State of Ohio.